

Message Text

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SUBJ: SINO-JAPANESE TRADE IN 1975: A POSSIBLE BILLION DOLLAR DEFICIT

REF: HONG KONG 13866 DTG 240704Z DEC. 74

SUMMARY. IN 1974, THE PREVIOUS TREND TOWARD MORE BALANCED SINO-JAPANESE TRADE WAS SHARPLY REVERSED, WITH A RECORD PRC BILATERAL TRADE DEFICIT OF \$847 MILLION, ON A CHINESE CUSTOMS BASIS. (IT WAS \$682 MILLION FROM THE JAPANESE POINT OF VIEW.) THIS NEW TREND CONTINUED IN EARLY 1975 AS THE GROWTH IN PRC IMPORTS FROM JAPAN FAR EXCEEDED THAT OF PRC EXPORTS THERE. THIS GROWING DIVERGENCE -- IF UNCHECKED -- WOULD PROPEL THE PRC TO A BILLION DOLLAR BILATERAL TRADE DEFICIT WITH JAPAN IN 1975. PRC CONCERN ABOUT THIS UNPLANNED STATE OF AFFAIRS IS EVIDENT IN ITS EFFORTS TO GET PRC TEXTILE EXPORTS TO JAPAN MOVING AGAIN. END SUMMARY

1. IN THE FIRST TWO MONTHS OF 1975, THE PRC IMPORTS CIF

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FROM JAPAN WERE \$435 MILLION, A 115 PERCENT INCREASE

OVER THE SAME PERIOD IN 1974, WHILE PRC EXPORTS FOB WERE ONLY \$175 MILLION, A MERE 2.4 PERCENT INCREASE, ACCORDING TO JAPANESE MINISTRY OF FINANCE CUSTOMS CLEARANCE STATISTICS SUBSEQUENTLY ADJUSTED TO A CHINESE CUSTOMS BASIS BY THE CONGEN. THE RESULTING PRC BILATERAL DEFICIT OF \$260 MILLION, IS ALREADY 30 PERCENT OF THE PRC'S 1974 TOTAL TRADE DEFICIT WITH JAPAN OF \$847 MILLION. THIS AND OTHER BALANCE-OF-PAYMENTS DEVELOPMENTS ARE THE REASON THAT CHINA IS SEEKING MORE TRADE CREDIT.

2. EVEN PRO-PEKING JAPANESE TRADE ORGANIZATIONS DO NOT LOOK FOR AN EARLY END TO THESE BILATERAL TRADE PROBLEMS. THE JAPANESE INTERNATIONAL TRADE PROMOTION ASSOCIATION (JITPA) HAS ESTIMATED THAT SINO-JAPANESE TRADE MAY REACH \$4.2 TO \$4.6 BILLION (ON A PRC CUSTOMS BASIS). THE LOWER RANGE OF THE ESTIMATE ASSUMES THAT PRC EXPORTS FOB TO JAPAN WILL REACH \$1.5 BILLION, THUS MAINTAINING LAST YEAR'S 30 PERCENT GROWTH RATE. FURTHER, IT ASSUMES THAT PRC IMPORTS CIF FROM JAPAN WILL REACH \$2.7 BILLION, A 30 PERCENT INCREASE WITH WOULD BE A SHARP DECLINE FROM THE 90 PERCENT INCREASE POSTED IN 1974. THUS, THIS OPTIMISTIC ESTIMATE YIELDS A PRC BILATERAL TRADE DEFICIT WITH JAPAN OF \$1.2 BILLION (OR A SURPLUS OF \$1 BILLION FROM THE JAPANESE POINT OF VIEW). MORE LIKELY THE 1975 DEFICIT WILL EXCEED THAT FIGURE, CONTRASTING EVEN MORE SHARPLY WITH THE 1973 DEFICIT OF ONLY \$165 MILLION.

3. SOME OF THIS YEAR'S TRADE DEFICIT WILL, OF COURSE, AGAIN BE FINANCED BY WHOLE PLANT PURCHASE CREDITS GRANTED THE PRC BY JAPANESE FIRMS, BUT THE PRC'S MAJOR IMMEDIATE PROBLEM IS TO INCREASE ITS EXPORTS OF TRADITIONAL COMMODITIES TO JAPAN.

4. A PRIMARY DIFFICULTY IS THE CONTINUING DEPRESSION IN THE JAPANESE MARKETS FOR COTTON TEXTILES AND SILK. IN FACT, THE PRC IS STILL TRYING TO MOVE TEXTILES APPARENTLY ORDERED BY JAPAN IN SPRING 1974, AND JAPAN IS STILL NOT IMPORTING SIGNIFICANT QUANTITIES OF RAW SILK. ACCORDING TO NIHON KEIZAI, MARCH 20, CHINATEX PROPOSED TO THE JAPANESE INTERNATIONAL TRADE PROMOTION ASSOCIATION (JITPA) LIMITED OFFICIAL USE

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THAT NEGOTIATIONS TAKE PLACE TO SETTLE, BEFORE THE SPRING 1975 CANTON FAIR, OUTSTANDING PRC EXPORTS CONTRACTS WITH JAPANESE FIRMS. THESE CONTRACTS WERE VALUED BY NIHON KEIZAI AT \$300 MILLION. THOUGH WE THINK THAT THIS FIGURE IS ABOUT \$100 MILLION TO HIGH (SEE REFTEL), CHINATEX OBVIOUSLY DOES HAVE A SIGNIFICANT CONTINUING PROBLEM. THE RE-SURFACING OF CONTRACT PROBLEMS ORIGINALLY TO BE SETTLED AT THE FALL 1974 CANTON

FAIR (DUBBED BY SOME THE "RENEGOTIATION FAIR") INDICATES
THAT THE 30-50 PERCENT PRICE REDUCTIONS THEN OFFERED ARE
STILL NOT ENOUGH TO DO THE JOB. FURTHERMORE, JAPAN HAS
STILL NOT AGREED TO IMPORT THE FULL EIGHT MILLION METRIC
TONS OF PETROLEUM THAT THE PRC OFFERED FOR SALE AT REDUCED
PRICES (ER-6, HK -3100). THUS THE PRC MAY BE SEARCHING
HARD FOR SOME COMMDITIES TO REDUCE THE BURGEONING BI-
LATERAL DEFICIT.
CROSS

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